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Ratings

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Summary:

Chatham, Massachusetts; General Obligation

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Credit Profile		
US$5.19 mil GO muni purp loan ser 2019 due 04/15/2039		
Long Term Rating	AAA/Stable	New
Chatham GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Chatham, Mass.' series 2019 general obligation (GO) municipal-purpose loan bonds and affirmed its 'AAA' rating, with a stable outlook, on the town's existing GO debt.

Chatham's full-faith-and-credit pledge, subject to Proposition 2 1/2 limitations, secures the bonds.

Despite these limitations, we rate the limited-tax GO debt at the same level as our view of the town, reflected in the unlimited-tax GO bond rating, due to a lack of limitations on resource fungibility available for debt service.

Chatham's GO bonds are eligible to be rated above the sovereign because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the town has a predominately locally derived revenue source with roughly 75% of general fund revenue derived from property taxes with independent taxing authority and treasury management from the federal government.

Officials intend to use series 2019 bond proceeds, totaling roughly $5.2 million, to finance various capital projects townwide and permanently finance $3.8 million of bond anticipation notes outstanding.

The rating reflects our opinion of the wealth of Chatham's economy on Cape Cod, which is well managed and financially strong. We recognize the elevated amount of debt issued under the wastewater project plan, but we also understand the costs are manageable.

The rating also reflects our opinion of Chatham's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 26% of operating expenditures;

- Very strong liquidity, with total government available cash at 25.7% of total governmental-fund expenditures and 1.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt-and-contingent-liability position, with debt service carrying charges at 14.8% of expenditures and net direct debt that is 146.3% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Chatham's economy very strong. The town, with an estimated population of 5,988, is in Barnstable County in the Barnstable Town MSA, which we consider broad and diverse. The town has a projected per capita effective buying income at 168% of the national level and per capita market value of $1.2 million. Overall, market value has grown by 4.6% during the past year to $7.1 billion in fiscal 2019. County unemployment was 4.3% in 2018.

Chatham is about 90 miles south of Boston, at Cape Cod's elbow. The town, which contains beachfront property on both the ocean and bay, is primarily an affluent summer resort and second-home community. Chatham's population multiplies in the summer to roughly 30,000. Due to its 67 miles of coastline and desirable location, it experiences high-end residential waterfront development. While selling prices for individual residential properties decreased during the recession, total market value has remained high.

Based on our regional forecasts, we expect the regional economy will likely remain stable, albeit with lower growth compared with the nation. Still, recent data indicate that the region's median home prices will continue to improve and that housing starts will remain positive. This is important because Chatham, along with other local regional governments, largely looks to property taxes to meet rising expenditures.

Very strong management

We have revised our view of the town's management to very strong from strong based on improvements to reserve and debt policies with additional strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management highlights include a strong focus on financial and capital planning, evidenced by its five-year, annually updated capital-needs budget and 10-year facilities-replacement plan. The town conducts financial forecasting to identify future revenue and expenditures and complement the capital budget. In building the budget, management performs a trend analysis, looking back at five years of historical data. Budget assumptions are conservative, and management monitors budget performance monthly.

Chatham's reserve policy calls for maintaining unassigned fund balance at 10%-15% of total annual expenditures, at least. We also note Chatham's formal debt-management policy limits debt to 5% of equalized valuation and total debt service to 10% of expenditures. Management maintains a formal investment policy and reports holdings, at least, annually. Management has also begun scenario planning for future weather-related risks due to its waterfront location.

Strong budgetary performance

Chatham's budgetary performance is strong, in our opinion. The town had operating surpluses at 6.6% of expenditures in the general fund and 2.9% of expenditures across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2018 results during the next few fiscal years.

What we consider strong budgetary performance reflects conservative budgeting during the past several fiscal years. We adjust our fiscal 2018 results for recurring transfers among the general, capital-projects, and sewer-enterprise funds. Management attributes the surplus to the growing economy that continues to support positive local receipts and property-tax budgetary variances.

For fiscal 2019, Chatham expects positive results, in-line with previous fiscal years. Property taxes generate nearly three-fourths of general fund revenue and other local receipts, such as motor-vehicle-excise taxes. Building permits are also strong.

Officials approved a balanced fiscal 2020 budget with no use of reserves. We expect budgetary performance will likely remain strong due to the stable budgetary environment. In addition, it maintains one of the lowest tax rates in the commonwealth, which, again, reflects strong property wealth relative to the cost of services the town provides. Tax collections have historically remained strong despite the large number of second-home properties. Current collections have averaged 99% during the past five years.

Very strong budgetary flexibility

Chatham's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 26% of operating expenditures, or $11.2 million.

The town has continued to increase available reserves during four of the past five fiscal years, leading to improved budgetary flexibility. According to management, it does not currently plan to spend down reserves. Management is projecting fiscal 2019 will close with another surplus that would raise available reserves further. We expect the town will likely maintain very strong reserves during the next several fiscal years because credit conditions are stable and the town carefully plans capital-outlay spending.

Very strong liquidity

In our opinion, Chatham's liquidity is very strong, with total government available cash at 25.7% of total governmental-fund expenditures and 1.7x governmental debt service in fiscal 2018. In our view, the town has strong access to external liquidity if necessary.

We believe liquidity will likely remain very strong because there is no expectation of significantly deteriorated cash balances. The town also maintains strong access to external liquidity by frequently issuing debt for capital projects. In addition, we note Chatham is not aggressive with its investments. The town does not currently have any variable-rate or direct-purchase debt, reducing its contingent-liquidity-risk exposure.

Adequate debt-and-contingent-liability profile

In our view, Chatham's debt-and-contingent-liability profile is adequate. Total governmental-fund debt service is 14.8% of total governmental-fund expenditures, and net direct debt is 146.3% of total governmental-fund revenue. Overall net debt is low at 1.2% of market value, which is, in our view, a positive credit factor.

Following this issue, Chatham will have roughly $80 million of total direct debt outstanding. Chatham's debt profile is elevated based on debt issued under its wastewater-management plan. Like all Cape Cod communities, Chatham was facing pressure from the commonwealth and U.S. Environmental Protection Agency to replace existing private septic systems with a public wastewater system to reduce nitrogen levels in the ecosystem. In 2009, the town embarked on a $210 million plan to install sewer lines communitywide and expand its treatment plan. The town frontloaded much of the debt to take advantage of financing options under recent economic stimulus packages. Officials currently plan to issue $10 million-$15 million every two years until the project is complete in 2040. Chatham issues all wastewater project debt through debt exclusions, which requires a two-thirds electorate vote. Other capital needs are limited because Chatham recently completed updates on all major public buildings.

Chatham's combined required pension and actual other-postemployment-benefits (OPEB) contribution totaled 6.2% of total governmental-fund expenditures in fiscal 2018: 4% represented required contributions to pension obligations and 2.2% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2018.

Chatham participates in Barnstable County Retirement System, a cost-sharing, multiemployer, defined-benefit pension plan; the plan is 61.9% funded. The town's proportionate share of the plan is $21.9 million. While pension costs are manageable, due to the county retirement system's below-average funded ratio, we believe this will likely remain a growing cost during the next few fiscal years.

Chatham's long-term OPEB liabilities are an additional long-term credit consideration. According to the most recent information available, the town's OPEB unfunded actuarial accrued liability was $17.4 million. Chatham recently established a trust to help defray increasing OPEB expenses. The trust currently has a balance of $1.2 million.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Chatham's very strong management and economy due to high wealth and income will likely translate to strong budgetary performance and very strong reserves. In our opinion, the stable budgetary environment limits our ability to lower the rating. In addition, debt and additional capital needs are limited and pension and OPEB costs are well contained. Therefore, we do not expect to change the rating within the next two years.

Downside scenario

Although unlikely, we could lower the rating if reserves were to deteriorate substantially, coupled with a lack of compliance with financial policies and practices.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov. 8, 2017
- 2018 Update Of Institutional Framework For U.S. Local Governments